



Bulk Water Supply Charges of Investor-Owned Public Water Utilities: Improving Customer Relations

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INTRODUCTION

Background

The South Carolina Office of Regulatory Staff (ORS) was created in 2004 with the enactment of Senate Bill 208: Act 175. The ORS is responsible for many of the non-adjudicative functions associated with utility regulation that formerly fell under the auspices of the Public Service Commission of South Carolina (PSC). The Water and Wastewater Department of the ORS represents the public interest with regard to the regulation of rates and services of private or investor-owned public water and wastewater utilities in South Carolina.

An increase in rates for water and wastewater utilities is necessary in order to provide sufficient capital dollars to maintain and improve quality service to customers, to provide adequate operating and maintenance coverage, and to maintain a sound financial position. It is also necessary to improve service by replacing aging water infrastructure as well as infrastructure that must be replaced when in conflict with highway and street rebuilds and renewals. The ORS and PSC regulate the *rates and service* of 42 water and wastewater companies in South Carolina. Of the 42 water and wastewater companies, most have multiple systems that are used to provide water and/or sewer service to its customers.

Private investor-owned water utilities typically obtain their water supply from wells owned and maintained by the utility. However, several utilities have entered into agreements to purchase bulk water via piping from other sources. The majority of the bulk water providers are surface water sources owned and maintained by municipal or governmental bodies that sell excess water to private investor-owned utilities through a master meter. The master meter is owned by the provider and the meter readings are recorded by the purchaser. The purchaser is invoiced routinely (monthly or every two months) by the provider. Consequently, the purchaser

or private investor-owned utility passes this cost to its customers through a formal pre-approved rate structure.

Problem Defined

Private water utilities regulated by the PSC calculate and apply bulk water supply, or purchased water charges to customer bills in diverse ways. Some utilities issue bills with a specific line item indicating the amount of the bulk water supply charge. Other utilities integrate the bulk water supply charge into the utility's overall water rate or charge to the customers. For some utilities, the bulk water supply charge reflected on monthly bills causes customers confusion and they frequently make complaints to the ORS. Customer complaints have increased over time for water utilities that have a separate line item on the customer bill form for water service supplied through a purchased water agreement from bulk water providers. The increased complaints have added to the workload of the ORS in responding and dealing with these complaints. The bulk or purchased water charges was part of the complaint in each of the six formal complaints that were filed with the PSC in 2009.

Evidence of Problem

Customer complaints received by the ORS and the PSC include various types of billing issues. Most of the billing complaints for water utilities are linked to the cost of service. However, the majority of the billing complaints concerning the cost of service are related to water systems that receive bulk or purchased water from a third party. From January 1, 2007 through February 4, 2010, ORS received 505 complaints related to water service and 120 complaints concerning sewer service. From November 1, 2006 through October 27, 2009, there have been 374 complaints involving water utilities that purchase water from third parties.

Project Scope

A review of the various rate structures utilized by the private investor-owned utilities is explored to determine if the complaints managed by the ORS can be reduced by a change in the way bulk water charges are assessed to the customer. This review includes an evaluation of the rate structures approved by the PSC, the number and types of complaints managed by the Consumer Service Department within ORS, billing practices of the various regulated utilities purchasing bulk water for resale to its customers, and the water production method utilized by the various regulated water utilities.

PROCESSES

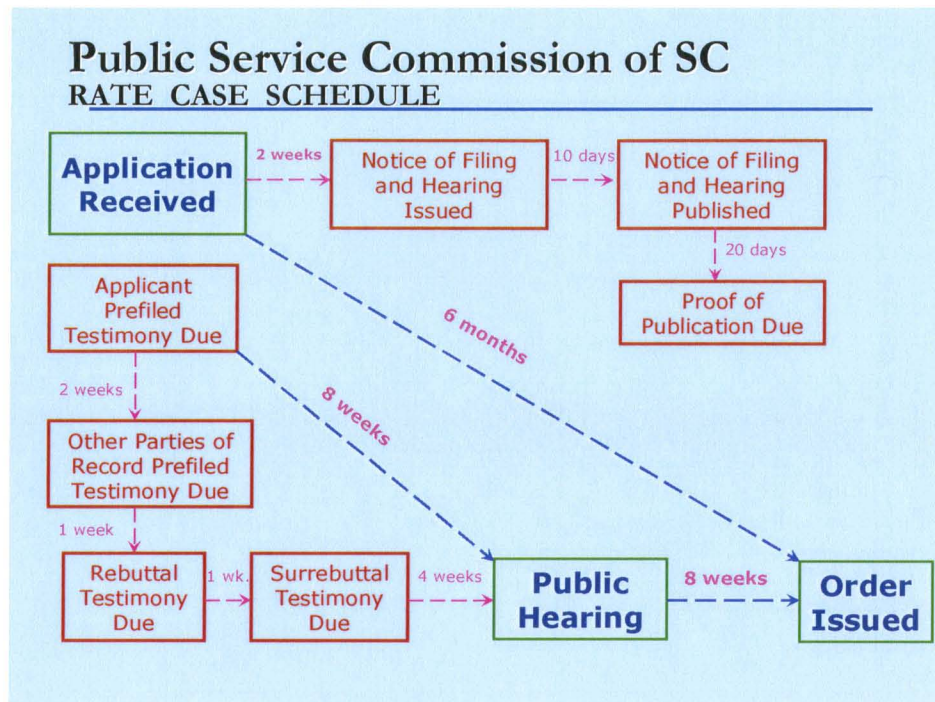
General Process

In South Carolina, there are 42 private investor-owned water and/or waste water utilities. Within this number, there are nine (9) utilities that purchase bulk water from other sources for resale to its customers. See TABLE 1. The seller of the purchased water supply includes both well water and surface water sources. The water is purchased from either a non-profit rural water district, governmental body, or another private investor-owned utility. Before the private investor-owned utility can pass along the cost of the purchased water to its customers, approval from the PSC is required. Pursuant to S.C. Code Ann. § 58-5-10, *et. seq.* (1976, as amended), the utility is required to obtain PSC approval prior to the implementation of any new rates and charges.

In general, the PSC decision making process for a rate adjustment application by a water utility takes approximately six (6) months. As mandated pursuant to S.C. Code Ann. § 58-5-240, a decision must be rendered within approximately six months from the date that the application is received. See FIGURE1. This process can be shorter. However, the final order must be

written outlining the PSC's final decision by the end of the six-month period. The PSC may, by order, extend the six-month period for an additional five days.

FIGURE 1



The regulated utilities identified in TABLE 1 have been approved to pass along their purchased water charges to its customers in various formats. In addition to the initial approval obtained from the PSC to pass along the cost of purchased water, several of these utilities have received approval to implement increases that occur from the bulk water provider without having to go through the complete required 180-day rate making process.

Carolina Water Service, Inc. (CWS) charges for the cost of water purchased from the bulk water providers and include this charge as a separate line item on its invoice to the customer. The charges imposed by the bulk water provider are charged to the utility's affected customers on a pro rata basis without markup. Therefore, the specific rate for water charges on the customer's invoice for purchased water will vary as the utility is invoiced by the bulk water

TABLE 1

UTILITY	Number of Customers (1)		Number of Complaints (2)				
	Water	Sewer	2006	2007	2008	2009	TOTAL
Carolina Water Service, Inc.	8,563	13,253	5	59	64	75	203
Utilities Service of South Carolina, Inc.	6,962	361	5	66	40	20	131
Tega Cay Water Service, Inc.	1,831	1,670	0	0	2	0	2
Dowd Water Systems, Inc.	71	0	0	3	0	3	6
Kiawah Island Utilities, Inc.	3,691	3,141	0	0	1	0	1
Avondale Mills, Inc.	616	495	0	0	0	29	29
CUC, Inc.	1,188	637	0	0	0	0	0
Harbor Island Utilities, Inc.	463	452	0	0	2	0	2
Ocean Lakes Utilities, Inc.	2,581	2,581	0	0	0	0	0
TOTAL	25,966	22,590	10	128	109	127	374

1. Source: 2008 Annual Report Form Received by the South Carolina Office of Regulatory Staff
2. Source: November 1, 2006 through October 27, 2009 data from the Consumer Service Department within the South Carolina Office of Regulatory Staff

provider. No additional notification or approval is required by CWS prior to the implementation of increased charges by the bulk water provider. See PSC Order No. 2008-855 issued in Docket No. 2006-92-WS. CWS obtains its water from multiple sources. This includes its onsite wells, non-profit rural water districts, and governmental bodies. CWS has multiple water systems which are located Aiken, Beaufort, Dorchester, Georgetown, Lexington, Orangeburg, Richland, Sumter, Williamsburg and York Counties.

Utilities Service of South Carolina, Inc. (USSC) charges for the cost of water purchased from the bulk water providers and include this charge as a separate line item on its invoice to the customer. The charges imposed by the bulk water provider are charged to the utility's affected customers on a pro rata basis without markup. Therefore, the specific rate for the water supply charges on the customer's invoice for purchased water will vary as the utility is invoiced by the bulk water provider. In addition, USSC is required to give the PSC thirty days notice of its intent

to pass-through to customers purchased water charges which are higher than those in effect at the time of the PSC's approval of its current rate schedule. USSC must provide with such notice written documentation of an increase by the provider of purchased water justifying the increase in the amount of purchased water charges sought to be passed-through to affected customers. In the event that an increase in the amount of purchased water charges to be passed through to customers is found by the PSC to be so justified, USSC will then be required to give customers an additional thirty days notice before the increase in the purchased water charges to be passed through may be put into effect. See PSC Order No. 2006-22 issued in Docket No. 2005-217-WS. USSC obtains its water from multiple sources including its onsite wells, non-profit rural water districts, governmental bodies, and another private investor-owned utility. USSC has multiple water systems which are located in Abbeville, Anderson, Lexington, Richland, Saluda, Sumter, and York Counties.

Tega Cay Water Service, Inc. (TCWS) receives its purchased water from York County. York County does not generate this water but purchases its water from the City of Rock Hill. Therefore, TCWS will periodically have increases from both York County and the City of Rock Hill. TCWS serves customers located solely in the Tega Cay community of York County. The approved tariff (PSC Order No. 2006-582 issued in Docket No. 2006-97-WS) for TCWS requires the utility to pass along the charges imposed by the bulk water provider to the utility's affected customers on a pro rata basis without markup. No additional notification or approval is required prior to the implementation of increased charges by the bulk water provider.

Dowd Water Systems, Inc. (DWS) serves customers in the Stephenson Lakes and Emerald Shores communities of Lexington County near the Town of Chapin. DWS provides the customers of the Stephenson Lakes community with purchased water from the Town of Chapin. DWS passes along the cost of this purchased water to its customers under a tariff that requires it

to divide the amount of the monthly wholesale water bill from the Town of Chapin by the number of gallons used by all customers and divide this amount by 1,000 to determine the specific water commodity rate. DWS is required to notify the PSC within ten (10) days of any change in the purchased water rate for water supplied by the Town of Chapin before it can implement any increase it receives from the Town of Chapin. See PSC Order No. 2003-520 issued in Docket No. 2003-7-W.

Kiawah Island Utilities, Inc. (KIU) receives its purchased water from St. Johns Island. St. Johns Island does not generate this water but purchases the water from Charleston County. Therefore, KIU will periodically have increases from both St. Johns Island and Charleston County. The approved tariff (PSC Order No. 2002-285 issued in Docket No. 2001-164-WS) for KIU requires it to obtain approval from the PSC prior to the implementation of any new increase in its rates imposed by the purchased water provider. Also, KIU must provide its customers with a thirty (30) day notice before it can pass along the various increases from the providers of its purchased water.

Avondale Mills, Inc. (AMI) receives its purchased water from both Breezy Hill Water and Sewer Company and Valley Public Service Authority. Until 2009, AMI's approved tariff (PSC Order No. 2009-394 issued in Docket No. 2008-460-WS) did not allow it to recover the cost of its purchased water from its customers. In 2009, AMI obtained approval from the PSC to pass along most of its cost associated with purchased water charges from its bulk providers to the customers. AMI's current tariff requires it to obtain approval from the PSC prior to the implementation of any new increase in its rates imposed by the purchased water provider. Also, AMI must provide its customers with advance notice before it can pass along the various increases from the providers of its purchased water.

CUC, Inc. (CUC) serves customers of Callawassie Island and Spring Island communities in Beaufort County near Hilton Head Island. CUC provides its customers with purchased water from the Beaufort Jasper Water & Sewer Authority (BJWSA). CUC passes along the cost of this purchased water to its customers under a tariff that requires it to incorporate the purchased water cost into its existing rate structure. See PSC Order No. 2005-535 issued in Docket No. 2005-87-WS. In order for CUC to recover increases imposed by the purchased water provider, CUC must apply for a rate adjustment to the PSC under the six-month decision making process.

Harbor Island Utilities, Inc. (HIU) receives its purchased water from Fripp Island Public Service District (FIPSD). FIPSD does not generate this water but purchases its water from the BJWSA. Therefore, HIU will periodically have increases from both FIPSD and the BJWSA. The approved tariff (PSC Order No. 2007-888 and 2008-547 issued in Docket No. 2007-243-WS) for HIU requires it to obtain approval from the PSC prior to the implementation of any new increase in its rates. Also, HIU must provide its customers with a thirty (30) day notice before it can pass along the various increases from the providers of its purchased water.

Ocean Lakes Utilities, Inc. (OLU), located in Horry County near Murrells Inlet, obtains its water from its onsite wells and the Grand Strand Water and Sewer Authority. OLU's approved tariff does not allow it to recover the cost of its purchased water from its customers. See PSC Order No. 1993-1063 issued in Docket No. 1993-469-WS. Since OLU obtained approval for its current rates prior to interconnecting its water system to the Grand Strand Water & Sewer Authority, the utility unable to pass along to its customers the charges for purchased water. OLU will need to apply and obtain approval from the PSC before it is able to share its cost of purchased water with its customers. This approval will typically require a six-month decision making process.

The normal process for a customer complaint is that the complaint is received by the Consumer Service Department within ORS. The Consumer Service Department responds to the complaint directly (simple rate questions, cutoff process, etc.), seeks input from others within ORS (Water and Wastewater Department, Legal Office, Management, Audit), and/or requests that the company (utility) provide a response to the complaint back to the ORS.

If the complainant is not satisfied with the response, the complainant may file a formal complaint with the PSC. If the PSC accepts the complaint, they will request the utility to provide a formal response within 30 days. At the end of this 30-day period and depending on the response of the utility, the PSC will set a date for the submission of formal testimony by the various parties (complainant, utility, ORS, etc.) and a date for a hearing on the matter.

The cost to respond to a complaint varies widely. This is due to the fact that some consumer complaints can be handled by responding to the complainant with confirmation of the applicable rate for the utility while others may lead to a formal hearing before the PSC with the preparation and filing of written testimony and, in rare instances, an appeal of the PSC's final decision to the State Supreme Court.

SUMMARY AND RECOMMENDATION

Various improvements have been identified and can be made with the calculation of the bulk water supply or purchased water charges and how it is passed along to customers of private investor-owned utilities. All new rate adjustment cases submitted that involve bulk water supply agreements or proposals are evaluated to determine the best method for managing the impact of the cost to the customers. No new prorated bulk water supply rate schedules are being recommended for approval by the ORS. Utilities that provide customers with water from bulk water suppliers are being required to provide notice to its customers each time there is an increase in the charges for bulk water supply

cost. However, the ORS has not been able to obtain implementation of this requirement for all water utilities supplying their customers with water from bulk water suppliers. The process improvement efforts are an on-going effort and are not a separate activity from the normal rate adjustment process. Customer complaints continue to be an issue of concern while the costs of providing quality water service continue to rise. Purchased water charges incorporated in the normal water rates or within a flat rate to customers appear to generate fewer customer complaints. In addition, notification to the customers of routine increases by the bulk or purchase water provider seems to help reduce the number of complaints received by the ORS and educate the customer on the cost to provide water service. Having a separate line item on the customer's bill for purchased water complicates the billing process when the amount is prorated by the water utility instead of being applied using the same rate that the private investor-owned utility is billed by the water provider supplying the water. This complication increases complaints due to the fluctuation in the rate applied to the customer's water usage for each billing period. An individual customer is unable to verify that they are being charged appropriately for the purchased water amount on their bill due to this method of prorating the charge from the bulk or purchased water provider. In addition, it is a charge on the customer's bill that is very time consuming to audit. The invoice from the bulk provider must be analyzed and the customer consumption information must be obtained for all customers using the system during the time period being audited.

Therefore, ORS should use its legal authority to encourage private investor-owned utilities to transition away from using a prorated charge for water service. The ORS can file a petition with the PSC requesting that the existing utilities that utilize a prorated rate structure for water service be re-evaluated to establish a new rate schedule. Supporting information can be supplied to show the different methods that are working well with an emphasis on the reduced number and types of complaints, employee customer service time managing complaints related to billing inquiries, and the ease to facilitate an audit of the revenues and expenses; both internally by the utility and the

regulatory agencies. All of this would be a savings to the utility's operating expenses. Therefore, rates to customers would not be needed as greatly and/or shareholders profits would be increased. However, resistance from the utilities to this effort can add to the cost for the utilities that utilize a prorated rate structure for water service. All legal expenses and company time spent objecting to this effort can be passed along to rate payers.

Another approach is an attempt to obtain a regulatory or legislative change. These two methods are very time consuming and would involve a formal public noticing and hearing process. With the lobbying efforts on the part of the utilities, there is a lot of uncertainty about the outcome of these two scenarios.

Using the same rate that the bulk provider charges the private investor-owned utility will make it easier for the customer to understand their bill and the appropriateness of the charges. Any additional charges for loss water and meter size charges or base facility charges can be captured in the normal operating expense of the utility. This can help to reduce customer complaints, decrease the cost of the water utility to manage complaints dealing with rates, and lower the amount of resources the ORS expends managing consumer complaints concerning the appropriateness of rates related to bulk or purchased water. Also, this approach will help the ORS to more easily complete audits of the regulated utility to verify its proper application of the approved rates.

LITERATURE CITED

PSC DOCKET NO. 2006-97-WS, ORDER NO. 2006-582, Tega Cay Water Service, Inc.

PSC DOCKET NO. 2003-7-W, ORDER NO. 2003-520, Dowd Water System, Inc.

PSC DOCKET NO. 2005-87-WS, ORDER NO. 2005-535, CUC, Inc.

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PSC DOCKET NO. 2007-243-WS, ORDER NO. 2008-547, Harbor Island Utilities, Inc.

PSC DOCKET NO. 2001-164-WS, ORDER NO. 2002-285, Kiawah Island Utilities, Inc.

PSC DOCKET NO. 1993-469-WS, ORDER NO. 1993-1063, Ocean Lakes Utility, L.P.

PSC DOCKET NO. 2005-217-W/S, ORDER NO. 2006-22, Utilities Services of South Carolina, Inc.

PSC DOCKET NO. 2008-460-WS, ORDER NO. 2009-394, Avondale Mills, Inc.